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Retail Food Sector Report

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Report Highlights:

Retail food sales totaled \$US 942 in 1998, the largest since 1995. Growth in 1999 placed at between 5-6%. Prospects for increased demand for processed food products are viewed as favorable. Consumption patterns of high value processed goods are concentrated within a small percentage of the population. Several constraints have contributed to the small market presence of U.S. foods:

- trade terms from U.S. companies are unattractive to Latvian traders;
 - a perception among Latvian importers that landed costs of U.S. products will be higher compared to European products, due to added transportation costs;
 - a perception that U.S. exporters are simply too far away to service the Latvian market.
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RETAIL FOOD SECTOR REPORT

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I. MARKET SUMMARY

The Latvian food retailing sector includes retail/wholesale enterprises with multiple retail and wholesale operations, chains of supermarkets and groceries, convenience stores, small corner shops, and outdoor markets to better service the food market requirements.

Retail food sales totaled \$US 942 million in 1998, the largest since 1995. Growth in 1999 placed at between 5-6%. By turnover, independent groceries are the major retail trade sector, followed by convenience stores and kiosks.

Table: Value of overall retail food sales by subsectors (\$US Mil)

Sub-sector	1994	1995	1996	1997	1998
Supermarkets	79	113	114	141	188
Convenience stores/Gas marts/Kiosks	142	186	181	199	237
Independent stores/Specialized stores/ Wet markets	538	610	499	476	517
Total	759	909	794	816	942

Prospects for increased demand for processed food products are viewed as favorable. In 1998, overall economic growth continued although the market situation was affected by the serious economic crisis in Russia. The market is recovering from the slow down in trade volumes and food processing sector output. Latvia's 1998 inflation (2.8%) was the lowest of all countries of Central and Eastern Europe.

Consumption patterns of high value processed goods are concentrated within a small percentage of the population. The increase in purchasing power allowed for consumption growth forecasts of 3.5% in 1999. Consumer preferences differ significantly among various income, age and ethnic groups. A preference for new products is strong among the younger population, but a significant number of consumers remain "tasting level" buyers.

On average, consumer demand remains very price sensitive. The average income level of nearly half of population was close to minimum subsistence level. In 1998, the average income per household member was US\$109, of which 48% spent for food. A negative effect of fast economic reform has been an uneven income distribution and segments of the population sliding into poverty.

For most products, domestic production capabilities meet between 70-90% of demand. Foodstuff imports are viewed as means of adding to the variety of products.

Table: Value of retail food turnover: imported foods vs. domestic products (\$US Mil)

Year	1994	1995	1996	1997	1998	
Domestic Products	689	805	650	608	677	71%
Imported Products	68	104	144	207	265	29%
Total Retail Food Turnover	757	909	794	815	942	100%

The total number of stores selling food has decreased by 14% since 1995, in line with the restructuring and concentration process in the retail food sector. In 1998, retail food stores numbered 5,465, and in addition food was sold by about 19,000 kiosks, stands and retail outlets at traditional markets.

The development of a broader food market is currently hampered by uncontrolled wholesale sector where many wholesalers also operate as retailers and sell smuggled products at substantially cheaper prices. Estimates show about third of imported food products smuggled into the country from Europe in an attempt to avoid taxes and other import charges.

Advantages and Challenges Facing U.S. Products in Latvia

Advantages	Challenges
The general image of U.S. products is positive	Low awareness of U.S. food products
U.S. products are considered safe and good quality	Consumer demand remains very price sensitive
Increase of purchase power allows customer choice	Long established consumer preference for domestic fresh products with short shelf life and without additives
The growing retail sector is looking for new food imports	High competition on local market between domestic producers and increasing imports from EU and Baltic neighbors. Significant share of food products is being smuggled from European countries into Latvia
Viewed strategically, Latvia is attractive as a gateway to larger regional markets, including St. Petersburg and Northwestern Russia, Belarus, CIS and two other Baltic countries of Estonia and Lithuania	With Latvian- EU FTA (signed 1995) in force, tariffs for EU imports are gradually declining compared to the MFN rates applied to imports from the U.S.
Latvia joined WTO in 1999 enabling easier market access	The absence of a clear legislative distinction between wholesale and retail operations negatively impacts retail trade system's development
Baltic Free Trade Agreement enables suppliers to view the Baltics as a single market	Latvia is a small target market for US products
The overall business environment is open to US companies	Attempts to protect domestic producers by introducing safeguard measures (pork)

II. ROAD MAP FOR MARKET ENTRY

A. Supermarkets

The increased supermarkets sector accounts for 36% retail turnover of high value food products, and a further growth is anticipated by this sector. This sector welcomes new entrants.

Entry Strategy

New- to-market entrants will have to be aggressive, as suppliers from European countries have already established distribution networks for consumer oriented food products. Companies should be focused primarily on large wholesalers and distributors.

The best pattern for entering the market should include:

- market research in order to estimate product opportunities;
- finding an experienced distributor or independent reliable agent with strategic distribution channels who can advise on import duties, sanitary regulations, labeling requirements.
- try to calculate the cost of a landed product and overview the competitors. The level of sales will depend on price competitiveness;
- personal contact is advisable to discuss marketing. Negotiations of marketing strategies should include funding offers for advertising, slotting allowances, in store promotions and tasting, considerations about the trade fair participation, to raise awareness of the product.

Distribution

Imported processed food products are moving through about 10 of the largest importers-distributors. Imports to bounded warehouses based on consignment contracts have become popular. Some wholesalers have cash and carry type wholesale operations, but others operate chains of retail grocery stores and supermarkets. A number of smaller importers have specialized by specific type of product, and have local distributing company. In addition to cash and carry operations, large processors and distributors offer direct sales services. Distribution companies import products according to pre-assigned order/agreement with a customer, wholesaler or retail structure.

At present, there are no laws that regulate the relationship between a foreign company and its distributors or agents in Latvia. A distributor relationship can be determined based on specific distributor agreement. No laws regulate franchising yet, and therefore, franchise agreements might be difficult to enforce.

Company Profiles

The largest turnover belong to Interpegro, a company operating 6 supermarkets and a chain of 7 groceries with its own distribution center. Another serious food company owned by the Norwegian Hakon Group has already opened seven *Rimi Baltija* supermarkets in Riga, and plans to open about 15 more. Plans include building a centralized distribution center but at present each store is independently supplied by almost 220 suppliers. REMA 1000, a daughter company of another Norwegian chain operates three supermarkets, and plans to expand nationwide with 25 stores in next 2-3 years. The first *Sky* supermarket opened in August 1999, a chain is owned by a German concern Schleswig-Holstein. Another new market entrant British *Tesco* has announced plans to open the first store next May.

Retailer Name and Market Type	Ownership	1998 Sales (\$US Mil)	Number of Outlets	Location City/Region	Purchasing Agent Type
RIMI Baltija, Chain of Supermarkets	Norway	30	7	Riga	Importer, Direct
Interpegro, Chain of Supermarkets and Groceries	Latvian, Poland, Holland	38	13	Riga	Importer, Direct, Wholesaler
Turiba, Supermarket	Latvian Consumers Cooperative	17.6	20	Regional	Importer, Direct, Wholesaler
Nelda, Supermarket	Latvian	8.8	4	Riga	Wholesaler, Direct
REMA 1000, Supermarket	Latvian/Norwegian	5.3	3	Riga/Regional	Importer, Agent, Direct
ALTS, Supermarket	Latvian	3.5	3	Riga	Wholesaler
Feniks, Supermarket	Latvian	7	3	Regional	Wholesaler

Large supermarkets tend to provide different additional services to consumers offering ready-to-cook prepared foods, cafeterias, home-meals replacement and parties trays. In more and more shops you can find small businesses, like gifts and parcels wrapping, flower shop, currency exchange. In addition, large supermarkets offer dry-cleaning, shoes repairer and cleaning, bankers office, insurance broker, film developing, film rental. Internet sales are not yet popular.

Warehouse outlets, hypermarkets, and wholesale clubs have not yet made an appearance on Latvian market.

Customers profile

Of about one million active buyers in Latvia, only the higher income segments (10-12%) are regular consumers of high value processed food products. These customers buy food at supermarkets 2-4 times per week, and are more concerned with variety and brand names rather than price.

Another 10-15% of population make up the second income group which can be categorized as occasional buyers. With the increase of purchasing power of population, this group provides the base for future demand and can be targeted for promotional activities.

Consumption of imported processed food items has been enhanced by increased foreign community, and fast growing tourism. About 60% of products sold by supermarkets are imported, making up 40% of sales.

The interest in ready made goods is growing with increased numbers of employed women. Of the country's 1.04 million people employed, women account for 48%. Nearly 85% of working age women go to work outside home.

The total population is decreasing, due to the negative birth rate and emigration. The population in Latvia is getting older, and of 2.445 million total population, 26% are retired. The average size of old-age pensions allotted to unemployed pensioners under the social welfare system was US\$80. It does not allow any variety in food/diet purchases.

Nearly 30% of population live in rural areas. In many households farming provides the staple mainly due to limited purchase power.

B. Convenience Stores, Gas Marts, Kiosks

Entry Strategy

The total turnover for the convenience stores, gas marts and kiosks of grocery products is about US\$ 237 million divided 65/16/19 percent respectively. Sector's growth is expected at roughly 15%. The stores of this sector operate in chains. Usually imported products are sourced by wholesalers. The foreign owned international gas-mart chains in Latvia belong to specialized supplies system.

For new-to-market exporters this sector should be targeted following the same pattern as described above regarding supermarkets:

- to offer products to wholesaler in a letter or fax;
- provide samples and calculate landed costs;
- personally visit the company if possible;
- appoint an agent and negotiate product positioning, sales strategy and promotion activities.

Market Structure

Convenience stores have become increasingly popular offering large selections of imported food products. The largest sales by convenience stores belong to Interpegro and Turiba chains as well as OKAY chain. They are mostly situated in metropolitan area and in the largest cities. Foreign companies/investors are increasing the total number of convenience stores by acquiring and upgrading the traditional independent stores through purchase or franchise agreements.

On average, food retail generates up to 18% of total sales by gas stations. This sector is quite saturated with a stable demand by those customers who agree to pay an extra 10-15% for additional and improved service, high quality and limited choice. Norwegian Statoil leads the sector with 30% of the market. The attractiveness of gas marts may decrease with the fast development of supermarkets with easy parking and increased product varieties.

Kiosks were popular in early nineties and now stagnate with the lowest share of total retail food turnover. Some companies undergo upgrade within the sector. The recent market entrants with foreign capital (Narvessen and Plus punkt) are expected to push development through upgrade and consolidation.

Company Profiles

Retailer Name and Market Type	Ownership	1998 Sales (\$US Mil)	Number of Outlets	Location City/Region	Purchasing Agent Type
Statoil, Gas Marts	Norwegian	7.2	31	Riga and Largest Cities	Agents, Direct Imports
Viada, Gas Marts	Latvian private	1	20	Riga and Largest Cities	Wholesalers, Agents
“Select” Shell, Gas Marts	Holland	3	16	Riga and Largest Cities	Agents, Wholesale
OKAY, Convenience Stores	Latvian private/Norwegian	5	7	Cities	Foreign Import Agents
TK Riga, Convenience Stores	Latvian	2	4	Riga/Capital	Wholesalers
Konsum, Convenience Stores	Latvian Consumer Cooperative	5	10	All Country	Wholesale, Direct Imports
Neste, Gas Marts	Finnish	1.5	15	Riga and Regional	Agents
Hydro Texaco	Norway	0.5	6	Riga and Region	Wholesalers
Lukoil	Latvian Private	1.5	12	All country	Wholesale
Dinaz	Latvian Private	0.5	12	All country	Wholesale

C. Independent Grocery Stores and Wet Markets

With the increase of convenience stores and supermarkets the numbers of traditional independent groceries have declined reflecting the consolidation process. Independent food stores carry the largest share in total retail food turnover totaling US\$ 517 million. The growth of the sector was slow in 1998 compared to other sectors. The share of imported products in traditional groceries is small and declining. About 20% of outlets belong to Turība consumers cooperative association. Product lines differ greatly by location. In general, products are offered in wide range at prices attractive to low income customers with no special preferences.

Open air markets belong to municipalities and can be widely found in suburbs, regional centers and small towns as serious competitors to retail stores. The average consumer of open markets is extremely price conscious and

prefers domestic products. During the summer almost all segments of the population prefer shopping at open air markets for fresh domestic produce sold in large amounts by farmers. To add variety, produce, fresh vegetables

and fruits are imported by few large importers and distributed by smaller distributors/wholesaler. In line with processed vegetables and fruits, confectionary, bread products, dairy products, fish, meat, poultry, are sold at kiosk-type outlets.

This sector offers extremely limited opportunity for sales of imported food products from the U.S. We do not recommend a marketing strategy aimed at these outlets.

III. COMPETITION

European food companies have captured significant market shares with a strong market presence over the last five-six years as a result of proximity, historical ties, good quality products at competitive prices, marketing support, and logistical advantages. These companies have also benefitted from their government's financial and marketing assistance. The Russia's crises in August 1998 resulted in a serious squeeze of this traditional export market of many countries, and competition increased on Latvian food market between the domestic producers, Baltic Free Trade Agreement member countries, and EU exporters. Price competition is still fierce. Exports from European countries face lower duties, compared to U.S. exports due to enforced free trade agreements.

Several constraints have contributed to the small market presence of U.S. foods:

- trade terms from U.S. companies are unattractive to Latvian traders (advance payment requirement up to two-months, assumption of exchange rate risk and container purchases viewed as too large for the small Latvian market);
- a perception among Latvian importers that landed costs of U.S. products will be higher compared to European products, due to added transportation costs;
- a perception that U.S. exporters are simply too far away to service the Latvian market;
- Latvian importers and buyers simply lack information and awareness of U.S. processed food products.

In 1998, the U.S. share in Latvian agricultural trade was US\$ 6.2 million (2.3 %). U.S. exports were led by meat and meat products (23%), fish (22%), dairy products, fruits (7%), cereals (3%), fats and oils, meat and fish preserves, canned vegetables and alcohol beverages. The small shares reflect the inability of U.S. products to compete effectively with other suppliers. U.S. suppliers dominated in imports of almonds (41%), dried prunes (52%), coffee extracts (45%), poultry products (32%). The table below reflects the domestic market value for several products as well as the share of imports to balance the domestic consumption.

Table: Domestic market value and import share

Product	Value of Domestic Market, \$US Mil	Share of import, percent
Vegetables (excl. Potatoes)	90	65
Pork	53	13
Poultry	51	68
Beef	30	27
Pet Foods	8	85
Non-alcohol beverages	67	45
Sugar Confectionary	6	54
Apples	26	15
Chocolate confectionary	28	36

Due to insufficient domestic supplies at acceptable prices, U.S. companies have gained high shares in poultry supplies.

In 1998 pork was supplied in large amounts from Estonia due to its control of the largest meat packer Rigas Miesnieks, as well as Poland and EU. The overloading of Latvian market ended up with an enforcement of a temporary increase of duty tariffs to 70% for fresh/chilled/frozen pork, valid June 1- December 17, 1999.

A good opportunity lies in natural wine market currently dominated by exports from the South Europe. Consumption of whiskey is growing and customers prefer well known brands. There is a growing demand in drought beer.

The growing market for pet foods could be attractive to American suppliers due to the absence of serious domestic production. Main competitors to U.S. suppliers would be Austrian and Polish traders.

With Switzerland, Finland, Sweden, and Baltic neighbors establishing markets for confectionary in Latvia, the domestic producers have found their shares tightened.

For coffee and products the increased demand is getting satisfied by imports from Denmark, Switzerland, and Lithuania.

~~The main U.S. competitors for supplies of sauces, dressings, ketchup and mayonnaise to Latvia are Eastern European and Scandinavian companies, as well as domestic producers.~~

IV. BEST PRODUCT PROSPECTS

A. Products Present on Market With Good Sales Potential

Few U.S. produced products are available in retail stores and have good market potential: frozen poultry products (especially after the ban for poultry from Belgium and the Netherlands), fish, rice, pet foods, dried fruits and nuts, wine, fresh fruits. Some U.S. products manufactured in other parts of the world can be found: chips, soft drinks, packed snacks, chips, confectionary, liqueurs.

B. Products Not Present in Significant Quantities but Have Good Sales Potential

There is an opportunity to establish a market for dry, chilled and frozen processed foods. However, concerns exist about the presence of GMO (biotechnology) ingredients and consumers have shown a distinct interest in organic foods. The product mix should exclude short shelf life products. The potential worth U.S. export items include: snack foods with extended shelf life such as raisins, dried foods, nuts, peanut butter, jams, jellies, dairy preparations such as frozen yogurt, ice cream mixes, sherbets, soft drinks, powdered drink mixes and frozen juice, wine, frozen foods, pizzas, meat, pasta preparations, frozen and tinned seafood, frozen and canned vegetables and fruits, maple syrup, as well as assorted convenience goods such as cheese, sauces, salad dressings and breakfast cereals.

C. Products Not Present Because They Face Significant Barriers

Rather unfamiliar to Latvian consumers are low fat, low salt, sugar free, and cholesterol free products, as well as brown sugar, cake mixes, marshmallows, corn meal, graham crackers, baking chocolate/chips. Consumers are more familiar with Scandinavian and German origin products.

The temporary increase of duty tariffs by 70% (duty tariff rate is 115%) for fresh/chilled/frozen pork, valid from June 1 through December 17, 1999 may hamper any U.S. pork imports.

V. POST CONTACT AND FURTHER INFORMATION

The National Food Certification Center is in charge for tests of samples to receive a retail sales permit and certificate of conformity. It is common that the importer or agent undertakes product clearance and approval procedures.

Food Certification Center
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For general questions about product import, please contact:

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: www.fas.usda.gov and the FAS/Stockholm regional headquarter office at www.usemb.se/Agriculture.

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